

Central Intelligence Agency

82-13373/2

Washington, D. C. 20505

9 December 1982

The Honorable Barry M. Goldwater  
Chairman, Senate Select Committee on Intelligence  
Dirksen Senate Office Building  
Washington, D.C. 20510

Dear Barry:

With reference to your letter of December 3, I regret that Selin's letter reached you before we could have an opportunity to inform your staff of the nature of the study we had commissioned.

One of the most controversial areas of CIA's analytical work has to do with our estimates of Soviet defense spending. There are many critics of this effort; those who believe we overestimate what they spend, those who believe we underestimate, and those who believe we simply have an inadequate methodology for doing the work. The level of criticism in the last several years has reached such a level that the credibility of the analysis itself has come into doubt and has become a source of considerable controversy within the Intelligence Community.

Under these circumstances Bob Gates, Deputy Director for Intelligence, proposed last spring to Bob Inman and me that we have several members of the DCI Military Economic Advisory Panel look into this matter. The MEAP is comprised of a group of noted specialists on the Soviet Union including people [redacted] who advise STAT me on the quality of our analysis in the area of Soviet defense expenditures. Most of the members of the panel are very prestigious experts whose views have contributed substantially to our work over the years. Our thinking was that we could save considerable time and money in this effort by commissioning a group of people already fairly familiar with our work to carry out a detailed evaluation.

The evaluation will be in two parts. The first will involve interviews with as many of those critical of the way we do our work -- regardless of the nature of their criticism -- as the panel can reach. The second part will be to talk to staff people on the Hill and in the Department of Defense to get the views of users on how these cost estimates are used and the value attached to them. Our objective is that at the end of this review the panel will be able to make recommendations on whether and how our defense costing estimating can be improved, with specific suggestions, as well as identifying whether the information gaps and methodological problems inherent in the issue are so great as to require significant changes in the way we go about the effort. Finally, they will address whether the way we

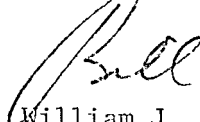
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present our cost estimates to policymakers leads to misunderstanding of the limitations of the analysis.

Your concern about the cost of using an outside group is understandable but I hope you will appreciate our perception of the need for a group that is widely perceived to bring objectivity and independence to this study and also the fact that we lack the manpower resources to undertake this kind of a review effort ourselves in addition to our analytical work. Moreover, the members of the panel are widely enough known among specialists in this area that we hope it will encourage people who might be reluctant to talk directly with CIA to present their views.

In short, what we have undertaken is an effort costing about \$50,000 to make use of some of the best minds in the country on Soviet defense economics to help us evaluate our analysis in an area that has become highly controversial and where there is considerable skepticism as to the validity of our work. It is part of our effort to improve the quality of analysis and also part of our continuing program to evaluate the way we do our work to insure that it is as accurate, well targetted and reliable as we can make it. I regret that this explanation reaches you after instead of before Selin's letter due to a missed signal. I encourage you or any member of your staff who has views on this defense costing business to accept Dr. Selin's invitation to talk with the panel.

Sincerely,



William J. Casey  
Director of Central Intelligence

Prepared by DDI

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